The Incredibly Unproductive Shareholder

Marjorie Kelly · January 2002

It's fashionable these days to fret about the high level of CEO pay and its seeming disconnection from individual or corporate performance.

But to cast CEOs as paragons of greed simply distracts attention from today's real business parasites: shareholders.

Yes, shareholders.

I know that we have been trained to worship shareholders and to assume that their interests trump all others, but the fact is, stock-market investors have become, collectively, an extraordinarily unproductive force in business.

Indeed, for the last two decades, their contribution to corporations has been literally negative.

Investors' money reaches corporate offers only when companies sell new equity, which major companies rarely do.

Among the companies making up the Dow Jones Industrials, only a handful have sold new common stock in the last 30 years.
Many haven't sold in 50 years.

According to the Federal Reserve and the SEC, sales of common stock today represent only about one of every $100 traded on exchanges.

Nearly all the money "invested" in public companies, in other words, just goes from one speculator to another.

And that doesn't even take into account stock buybacks.

When we look at the Federal Reserve's new equity sales – new stock sales plus buybacks – we find that they've been negative in 15 of the last 20 years.

Overall, the net outflow since 1981 for new equity issues totals a staggering $540 billion.
Add in dividends and capital gains, and the outflow becomes a torrent.

Despite their enormous power, shareholders are the sole group exempt from the requirement to be productive.

CEOs are cast as the bad guys when they lay off staff or move operations overseas, but they're simply serving their masters – the shareholders.

If CEOs don't scrounge every dime for investors, they risk being fired by their boards.
If the board don't require such scrounging, they could be ousted in hostile takeovers.

I’m not arguing that the interests of shareholders should be completely ignored and I’m not questioning the motivations of individual investors.

I’m just saying that it’s wrong to shovel out money out to shareholders even in larger scoops and force other stakeholders to pay the price – with wages held down, tax obligations ducked, suppliers squeezed – all because some investors put in a little money 30 or 50 years ago.

Investors do deserve a fair return.
But other stakeholders also deserve consideration.

Currently, 32 state legislatures have explicitly recognized the importance of other stakeholders by passing laws that give boards permission to resist shareholder pressure during mergers or take-overs.

These stakeholder “statutes” allow directors leeway to *not* maximize shareholder gains.
A board can legally refuse the highest offer to a company if doing so benefits other stakeholders, such as employees or the local community.

Using these laws is one way to break our collective delusion of the divine right of the shareholder.
These statutes give leaders an opportunity to make the case that shareholder hegemony is out of step with market ideals.

In a system devoted to unconscious regulation, it makes no sense that corporations consciously serve one group alone.

In a system of rewarding hard work, it makes no sense that shareholders be rewarded regardless of their productivity.

Giving a primary concern to the shareholders has become, quite simply, a form of entitlement.
And entitlement has no place in a free market.